



ZHVILLIMI I NDËRRMARJEVE SHQIPTARE & SHËRBIMET E TREGJEVE TË EKSPORTEVE
ALBANIAN ENTERPRISE DEVELOPMENT & EXPORT MARKET SERVICES



Albania Enterprise Development & Export Market Services
(EDEM)

SEMI-ANNUAL REPORT

For the period

15 September 2003 through 31 March 2004

Prepared by

Development Alternatives, Inc.

For

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Contract No.: 182-C-00-03-000108-00

Albania Enterprise Development & Export Market Services

[EDEM]

The EDEM project officially started on September 15, 2003. This first Semi-Annual Report covers the period from EDEM's beginning through March 31, 2004. Incorporated by reference in this Report is EDEM's Quarterly Report covering the period from September 15 through December 31, 2003.

Activity Summary:

The first six months of EDEM's activity has focused in three major areas:

- 1) establishing relationships with key organizations and individuals that support development of the Albanian SME community, and putting into place the organizational apparatus necessary to operate the project in an effective and efficient way;
- 2) developing the project's implementation strategy and operating processes; and
- 3) initiating formation of cluster activities in the meat processing, herbs & spices, and specialty tourism industries.

Highlights

- In December, EDEM hosted an Operations Workshop attended by over 80 representatives from the business community, government ministries, NGOs and donor organizations. The interactive Workshop, facilitated by TRG and featuring the OTF Group, both EDEM subcontractors, provided the participants (most of whom stayed the entire day) an in-depth background on the concepts of competitiveness and the benefits of working together through a cluster approach.
- A major objective of EDEM is increasing the public's awareness of and involvement in promoting the competitiveness of Albanian products. To foster EDEM/media relationships, in the first week in November, EDEM and OTF staff conducted a briefing for approximately 20 members of the Albania media. The briefing laid out the EDEM project, the competitiveness and cluster approaches, and provided the media an opportunity to ask questions and seek clarification about planned activities. EDEM was also very successful in attracting media to its Operations Workshop and obtaining event coverage. Representatives from 12 media outlets (six TV channels, two radio stations, three newspapers and one magazine) plus several freelance journalists filed reports on the Workshop including TV interviews with OTF representatives and a Voice of America interview with the USAID Mission Director.

- USAID approved going ahead with the formation of three SME clusters – meat processing, herbs/spices and specialty tourism. Initial meetings of the three forming clusters generated a good deal of enthusiasm from the SMEs represented at the meetings. Each clusters held two meetings between late February and the end of March. Representatives from 18 companies participated in the meat cluster meetings; 21 firms participated in the herbs/spices cluster formation activities; and 33 firms and related organizations attended the first two specialty tourism meetings. All three clusters have quickly begun the process of identifying and defining those issues and obstacles that make it difficult to operate a business in Albania and hold them back from succeeding in the market place.

Project Implementation Modifications:

To effectively produce the results USAID is anticipating from EDEM, several strategic assumptions and alterations have been made regarding the premise of the project and to key implementation practices:

- While the USAID/DAI EDEM contract assigns the responsibility for selecting clusters to the Trade Policy Committee (TPC), this devolution of responsibility is inconsistent with USAID policy. As a result, the process for selecting clusters has been altered to leave the final decision as to which industry groups EDEM will support with USAID-Albania as opposed to having the decision made by the TPC, which is composed of donors, government officials, and representatives from NGOs and the business community.
- Understanding the intensive effort that will be required to effectively strengthen Albanian industrial sectors and the resources available to EDEM, the project will focus on a limited number of agribusiness and non-agribusiness sectors. At this time, 2 agribusiness and 2 non-agribusiness industry clusters (one of which will be managed by ACIT) will be the focus of EDEM's activities. The addition of new clusters will be dependant upon the progress made by the current clusters and the resources available to the project.
- The overriding goal of EDEM is to stimulate Albania's economic growth with a resulting increase in employment opportunities that provide livable wages. While expansion in export capability will assist in reaching that goal, increased coverage of the domestic market by Albanian producers will also significantly enhance economic growth and job creation. EDEM will balance assistance to export oriented activities with support to strengthening the capability of Albanian firms to better serve the domestic markets.
- Recognizing that the Albanian SME community is relatively new to market oriented operations, EDEM understands the need to provide firm level assistance to the limit of its ability in order to help Albanian firms become more competitive and capable of holding their own against their more mature and sophisticated competition from other countries. While EDEM will look to strengthening the industry and cluster as a

whole, it will, where appropriate, assist individual firms to increase their competitiveness. It will be impossible to have strong industry groups without having strong individual firms.

Implementation of EDEM is an ongoing process that has an end goal – economic growth with job creation – but that has to be able to flexibly adapt to conditions and circumstances encountered a long the way. As has been seen in the first six months of the project’s life, the need to evolve implementation strategies and approaches is critical to achieving the success of the project as envisioned by USAID and DAI. While review and adaptation will be continuous, a comprehensive internal review is planned for the end of Year 1. Without losing sight of the end goal set for EDEM, DAI believes it important to review the project framework in conjunction with the private sector development situation in Albania and propose to USAID a strategy for the coming years that will most effectively deliver the highest level of possible results.

Work Plan Progress:

The balance of this first Semi Annual Report is organized based on the project tasks as laid out in the Year 1 Work Plan.

Task 1: Relationship with the Trade Policy Committee (TPC) and ACIT (Albanian Center for International Trade)

Task 1.1 Work with the TPC

There has been much discussion concerning the role of the TPC in providing guidance to EDEM and in the project’s decision making processes with regard to cluster selection. In effect, the TPC, as laid out in the USAID/DAI EDEM contract, is not functional and exists only on paper. Furthermore, it appears the decision making responsibility assigned the TPC is contrary to USAID policy. With these two points in mind, DAI recommended to USAID/Albania that the role of the TPC in the implementation of the EDEM project be re-examined. DAI further recommended that: 1) the TPC be replaced by an Advisory Group charged with providing advice to EDEM and USAID; and 2) USAID/Albania be given the cluster selection decision making responsibility.

USAID/Albania, which concurred with the need to re-examine the role of the TPC, has “recommended that the DAI Chief of Party meet with the [project’s] CTO to address redefining the role and composition of the TPC or the replacement of the TPC with a new advisory body.” Discussions between the two have begun, although resolution is still pending.

Furthermore to DAI’s initial recommendation, because of the decision to limit the number of clusters that EDEM will support, an adjustment to the proposed role of the Advisory Group (if that is the route chosen) will be necessary. The initial recommendation contained three responsibilities for the EDEM Advisory Group:

- “1) provide guidance to USAID and EDEM in the selection of clusters;

- 2) review the progress of cluster action plans; and
- 3) provide advice to EDEM and the clusters on approaches that will make their efforts more productive.”

Amending the recommended role of the Advisory Group will be part of the discussions between the COP and CTO during the coming Quarter.

Task 1.2: Work to Strengthen ACIT

Through efforts initiated by EDEM, ACIT has become actively involved in applying the cluster approach to supporting the development of Albania’s SME community and returned the competitiveness paradigm to its agenda. ACIT has energetically assisted the formation of the three EDEM clusters by participating in discussions related to creation of the cluster, providing relevant industry background material and taking part in almost all cluster meetings to date. At the initial meeting of the meat processing cluster, ACIT presented key material to the participants regarding the Albanian Meat Industry and Regional Trade Perspective; and for the first Specialty Tourism meeting, ACIT prepared material outlining key trends in international tourism.

To further ACIT’s growing interaction with the business community, in early February ACIT agreed to manage a cluster using the EDEM developed process. ACIT is currently preparing industry profiles for three sectors – garments/apparel, leather goods, and wood processing. ACIT, using its USAID provided funds, hired an individual who will be assigned cluster coordinating responsibilities at the close of the current Quarter. ACIT is expecting to make a recommendation regarding which industry it believes most appropriate for cluster formation to USAID and EDEM in mid-May. ACIT’s cluster selection process and management of the cluster will be actively supported by EDEM staff and assistance resources.

In addition to cluster related activities, ACIT helped to identify topics that would communicate to the public and the business community in general the status of Albanian economic competitiveness, obstacles that hinder its further development, and the need to address those obstacles if Albania’s economy is to grow. ACIT’s participation was important to their development of a deeper understanding of the role the public and business community can play in spurring changes to government policies that impede economic growth. ACIT has made few attempts to reach out to the broader audience. EDEM will continue to offer opportunities to increase their awareness of the importance of such involvement.

While ACIT and EDEM continue to interact on a fairly regular basis, most all efforts at interaction have been initiated by EDEM. With ACIT taking on the responsibility to run a cluster with EDEM’s support, efforts will be made to create an environment that encourages ACIT to proactively seek EDEM’s involvement in relevant activities.

Task 2: Cluster Selection and Development

Significant progress has been made in moving forward with the application of the cluster approach to strengthen selected sectors of Albania's economy. As a follow on to the activities identified in the first Quarterly Report, during this past Quarter:

- Comprehensive cluster selection criteria were proposed to USAID, which adopted them as a means to review the appropriateness of selecting an industry sector or sub sector for cluster formation; (Appendix A lists the cluster selection criteria as well as a description of each criteria.)
- Five in-depth industry profiles were prepared and discussed with USAID:
 - 1) Meat Processing;
 - 2) Dairy;
 - 3) Horticulture – fresh fruits and vegetables, processed and frozen products and greenhouse production;
 - 4) Specialty Tourism – including Adventure Tourism; and
 - 5) Herbs and Spices.
- Supporting EDEM's efforts to identify those Albanian industries that would most benefit from application of the cluster approach, OTF, an EDEM subcontractor, prepared an analysis of Albania Trade Statistics for the period from 1992-2002 for the industry segments EDEM was investigating. A copy of the OTF report has been filed with USAID/Albania.
- Based upon information presented in the industry profiles and EDEM recommendations, USAID approved moving ahead with forming clusters in:
 - 1) Meat Processing;
 - 2) Specialty Tourism; and
 - 3) Herbs and Spices.
- Each clusters held two meetings between late February and the end of March. Representatives from 18 companies participated in the meat cluster meetings; 21 firms participated in the herbs/spices cluster formation activities; and 33 firms and related organizations attended the first specialty tourism meetings. All three clusters have quickly begun the process of identifying and defining those issues and obstacles that make it difficult to operate a business in Albania and hold them back from succeeding in the market place. Action plans for each cluster will be finalized during the coming Quarter for presentation at the National Competitiveness Conference currently scheduled for June 2.
- ACIT is currently preparing industry profiles for three sectors – garments/apparel, leather goods, and wood processing – from which one will be recommended to USAID for approval as an EDEM cluster.

- To identify potential industry segments that might warrant investigation for future cluster formation, an internal review of Albanian trade data was undertaken. Historical and current trade balances with other countries were reviewed to identify trends and the potential for further development of the industry segment.

EDEM's Year 1 Work Plan discussed selecting clusters in a series of tranches, with the first group being identified in January and a second group in April/May. In practice, EDEM was able to blend the two tranches into one. Recognizing the intensive staff effort and resource use that is necessary to successfully apply the cluster approach to evolving industries, based on current capabilities, EDEM does not foresee recommending that additional clusters be formed until the second or third year of the Project.

The three industries chosen for cluster formation provide a broad spectrum of issues and characteristics. Each has a different level of development: EDEM represents a beginning at group based issue resolution for the meat processors; for the herbs and spice industries, EDEM's cluster approach is a next step in industry development, following on from the efforts undertaken during the past two years of the former IFDC project; and for the specialty tourism industry, EDEM offers an organized approach to tackling issues and obstacles that many of the cluster members have been previously addressing either singularly or in small groups.

While EDEM will provide a method for cluster development, it is expected that each cluster will apply the process in a manner best suited to its needs and level of development, and at a pace appropriate to the industry group. There is a special advantage to having three diverse groups. With limited resources, USAID and EDEM do not have the capability to work with all industry sectors. However, by carefully selecting those that are supported and communicating the successes of the clusters to the broader community, EDEM will be able to demonstrate the benefits of working together. Having three diverse groups will allow industry segments from throughout the business community to more closely relate to the cluster activities and translate the clusters' processes and results to their own specific industry situations.

Task 3: Improve Cluster Competitiveness

In the last weeks of this past Quarter, the three EDEM clusters began deliberations that will lead to development of each cluster's Action Plan. Each Action Plan will specify issues and obstacles that impede the industry's development, a strategy for addressing the needs, and a time chart for implementation of assistance activities. Each cluster is expected to have a completed Action Plan and initial implementation activities underway by June.

In order to more effectively identify and define the issues and obstacles facing the herbs and spice industry, the cluster has created four working committees:

- 1) Marketing;
- 2) Export issues;
- 3) Technology Improvement; and
- 4) Government/Policy.

The four committees are charged with thoroughly investigating constraining influences in their respective areas, prioritizing those issues, and drafting a 'plan of attack' that will lead to resolution of the issues. Each committee will develop a sub plan and report back to the cluster as a whole. Individual cluster members have volunteered for different committees. However, committee membership will not be restricted and a number of cluster members may participate on more than one committee. In addition, EDEM will make an effort to recruit herbs/spice firms that have not been able to attend the initial cluster meetings and encourage their participation on committees of interest to them.

A parallel committee structure has been created by the specialty tourism cluster. That cluster has created three committees:

- 1) Marketing and Promotion;
- 2) Training and Customer Care; and
- 3) Government/Policy.

These committees will function in much the same way as described for the herbs and spice committees.

Although cluster assistance activities are dependent upon the developing cluster Action Plans, EDEM has continued to lay the foundation for effective assistance by identifying anticipated needs and possible resources that will be called upon to address the needs. During this past Quarter, EDEM staff met with a large number of individual firms in the three industry segments, in and out of Tirana, to brief them on the cluster process, engage them in a dialogue on how best to address industry issues, and encourage their participation in the cluster group process. Evidence of the firms' interest is the large number of firms from the three industry groups that participated in both of their industry's meetings.

In addition to discussing industry issues, EDEM also began to investigate firm level needs. As indicated earlier, to improve the cluster's competitiveness, it will be necessary to strengthen the capability of core industry firms. When supporting cluster Action Plan's with assistance resources, EDEM will look for opportunities to apply those resources to individual cluster members as well.

Central to EDEM's cluster support is leveraging assistance from other USAID funded projects, other donor organizations, NGO's, as well as the programs of government agencies. EDEM has continued to foster strong relationships with the donor community so that as soon as the clusters have developed Action Plans, appropriate resources can be marshaled to address their priority needs. During this past Quarter, EDEM continued to meet on a regular basis with key assistance providers such as the Small Business Credit and Assistance Project, World Learning, ACIT, Media Development in Albania, GTZ, and SEED. These meetings were held to update the various programs on latest EDEM developments, keep them informed on the progress of cluster formation, and keep EDEM informed regarding the capability of the different programs to assist the clusters in addressing their issues and obstacles.

Task 4: Improve the Business Environment

Lender's Survey:

Access to appropriate financing will be a key ingredient in the process of making the industry clusters and individual firms more competitive. In anticipation of the need to address this issue, EDEM completed a comprehensive survey of the financial institutions that are potential sources of credit to cluster members. Included in the survey were 15 commercial banks, seven micro-credit institutions and three equity funds. (Please see Appendix B for a copy of the survey form.)

In general, Albanian financial institutions are quite interested in supporting SMEs. However, for many reasons, the majority of SMEs have problems obtaining normal banking loans. A key reason is insufficient collateral, which most banks require to offset risk. Several banks have expressed interest in increasing SME lending using their own funds if effective loan guarantee systems can be put into place. However several other constraints – both internal and external – must be addressed at the same time if SMEs hope to regularly access commercial loans. Micro-credit institutions have started to fill the SME credit gap, but require additional capital resources if they are to be active players.

Most micro-lending institutions have been funded by and operate with donor funds. The Savings and Credit Association network credit unions are the exception, operating with member funding only.

Several commercial banks have their own capital available for limited SME lending and do not rely on external sources for lending capital. Most banks prefer to lend to big companies or larger SMEs, although long-term SME investment credits are an exception. Some banks were established with co-funding by international finance institutions and/or government sources. Now the banks are trying to shift their focus towards SMEs. At this point, only one bank (Procredit) actively lends to SMEs; a second (Raiffeissen) is expected to enter the market soon.

The three equity funds presently operating in Albania generally target big companies or somewhat larger SMEs and have little impact on small enterprise development at this time.

A large number of the lenders felt that there is a need for more co-ordination and better communications regarding SME finance. This was especially true of the micro-credit institutions, which could benefit from better use of the Micro-credit Association.

A copy of the complete report has been filed with USAID/Albania and the USAID/DC Development Experience Clearinghouse.

Business Service Provider Survey:

During this past Quarter, a design for a comprehensive survey of BSPs has been developed. The survey, to be conducted in the following Quarter, will identify Albanian private for profit, NGOs and other organizations that have the ability to provide sustainable services to the cluster members and the overall SME community. Along the lines of the Lender's Survey, the BSP

survey will identify the organizations, classify according to their organization type and make note of the types of services the organizations can provide. The information to be gathered by the survey will be valuable to the clusters as they being their efforts to address the various issues impeding the development of their industries and individual firms. As part of EDEM's facilitation of delivery of assistance resources to support implementation of the clusters' Action Plans, a concerted effort will be made to include, where practical and appropriate, local business service organizations in order to develop long term sustainable contacts between BSPs and the industry businesses.

Anti-corruption:

In February, EDEM added to its staff a full time local anti-corruption specialist. During the balance of the Quarter, the specialist conducted numerous meetings with cluster members, donors and NGOs engaged in anti-corruption activities, as well as government operations charged with identifying and addressing corrupt practices. These meetings were important to identifying current and proposed activities being undertaken to combat corruption in order that EDEM does not duplicate other activities but develops synergies with other programs to create a stronger overall campaign.

The research and meetings conducted this Quarter will lay the foundation for efforts in the next Quarter, which includes an STTA assignment at the end of April/early May. The STTA, working with the EDEM specialist and EDEM subcontractor, IDRA, will review and revise, as appropriate, EDEM's anti-corruption one and three year work plans and develop cluster-specific, and business community in general, activities that will be implemented to alleviate corrupt practices and engage the Albanian business community in championing anti-corruption initiatives. Significant to the Quarter's activities will be meetings, individually and in workshop format, with businesses and the media.

Task 5: Communications Strategy

Making the public and general business community aware of Albania's need to significantly increase its competitiveness capability if its economy is to grow, is a core objective of EDEM.

In addition to the activities reported for the First Quarterly Report, major efforts from the last half of the period covered by this first Semi-annual report included:

- To assure adequate exposure to EDEM's message, a comprehensive communications strategy was prepared to guide the project's communication/media related activities. (Please see Appendix C.)
- A program was developed to produce a continuing series of 20 to 30 minute TV shows that focus on the issues affecting Albania's economic situation. Modeled after the successful Heroes series, each production would concentrate on a single issue, highlighting where progress has been made and where efforts need to be applied in order for Albania to move forward economically. The subject matter would range from general topics such as 'applying the competitiveness paradigm', 'the informal

economy’ and ‘business environment issues’ to specialized topics such as shows on each of the EDEM clusters, ‘anti-corruption’ and ‘foreign investment’. The series will begin with a show on ‘competitiveness’ scheduled to be aired at the end of May and will be broadcast via the Heroes network. Beginning in the fall, it is anticipated that a different topic will aired on a monthly or bi-monthly basis. The effort is being closely coordinated with the USAID funded Media Development in Albania project.

- During this past Quarter, EDEM issued six news releases that appeared in over 20 outlets including newspapers, radio, and television. The releases primarily made note of EDEM cluster formation activities and highlighted that the three industry groups were initiating efforts to address issues of mutual concern to all the firms that were operating in the industry.

A major activity of EDEM’s first year’s efforts to encourage the public’s involvement in promoting a national movement to increase the competitive capability of Albania’s private sector and to broadly spread the message of the value of collaboration throughout the business community, EDEM will organize a National Competitiveness Conference in early June. In March planning efforts were begun.

Task 6: Administrative

In February, DAI and EDEM completed all the steps necessary to be legally registered with the Court of Albania. Registration, with a branch office classification, allowed EDEM to legally withhold tax and social payments for its employees and make the payments to the appropriate government offices.

EDEM was also able to fill its staffing pattern with one exception. At the end of March, the project was still in the process of recruiting the specialty tourism cluster coordinator position. (An individual was identified and approved by USAID in late April.) During this past Quarter four positions were filled: Market Development Expert (key personnel), meat processing and herbs/spice cluster coordinators, and the anti-corruption specialist. Unfortunately, it was necessary to release two individuals as their skills and experiences did not fulfill project needs.

Important to the management of EDEM activities, DAI’s proprietary Technical and Administrative Management Information System (TAMIS) was installed for use by EDEM and DAI home office staff, USAID, subcontractors, and ACIT, EDEM’s implementing partner. TAMIS is a unique management system that is adapted to the needs of individual projects, such as EDEM. Its function as a complete record keeping mechanism provides for a coordinated management and forms the basis for EDEM’s performance-based monitoring system. The EDEM TAMIS is fully functioning and accessible to all major stakeholders.

Significant effort was taken during this Quarter in development of a Results Framework and Performance Monitoring Plan (PMP) that will measure EDEM’s progress towards accomplishing the project’s objectives. Considerable discussion has been held with USAID regarding the most appropriate results and indicator measures. It is anticipated that the final Framework and PMP will developed during the next Quarter.

During the first six month's of EDEM activities, the project had 18 visits from STTA or home office staff, totaling 142 LOE days in the EDEM's Tirana offices. Of these 118 LOE days were supported from project funds and 24 LOE days were supported by DAI internal funds.

STTA	Arrival in Albania	Departure from Albania	Number of days
Molly McKnight	10/1/2003	10/11/2003	10
David Wilcock	10/1/2003	10/10/2003	9
Joanne Adams	10/14/2003	10/28/2003	14
Neal Donahue	11/2/2003	11/6/2003	4
Dane Smith	11/2/2003	11/6/2003	4
<i>Vahe Sahakyan **</i>	<i>11/17/2003</i>	<i>11/23/2003</i>	<i>6</i>
Maria Hipos	11/19/2003	11/25/2003	6
Joanne Adams	12/7/2003	12/19/2003	12
Dan Edwards	12/7/2003	12/20/2003	13
Andrew Smith	12/14/2003	12/18/2003	4
Dane Smith	12/14/2003	12/18/2003	4
David Wilcock	12/14/2003	12/18/2003	4
<i>Pavla Cornejo **</i>	<i>2/8/2004</i>	<i>2/21/2004</i>	<i>13</i>
Tanya Torres	2/8/2004	2/21/2004	13
<i>Gerald Martin **</i>	<i>2/23/2004</i>	<i>2/28/2004</i>	<i>5</i>
Scott Wayne	3/22/2004	4/4/2004	13
Dan Edwards	3/24/2004	3/25/2004	2
Peter Furth	3/28/2004	4/3/2004	6

[** supported by DAI funds.]

=====

Appendix A

EDEM CLUSTER SELECTION CRITERIA

Stage I. Identify Promising Industry Segments

Yes

No

A. Listed in DAI proposal

B. Additional industries listed in RFP

C. Market Opportunities

****DECISION POINT - PROCEED OR NOT PROCEED**

Stage II. Industry Profile Assessment

Low

Medium

High

A. Competitive Potential

1) Product/service with value-added potential - able to be differentiated or not easily imitated

2) Export or Domestic Market Demand

3) Five-force analysis

B. Economic Impact

1) Ability to pull own industry forward

Positive "pull" effect on related industries

2) Potential for sustainable job creation and gender impact

3) Potential for enhanced branding of Albania

C. Potential for Collaboration

1) Geographic proximity of candidate cluster members

2) Opportunity for regional cooperation

3) Correlation with existing or planned programs by donors, GOA or industry associations

4) Experience of other competitiveness programs with similar cluster focus

****DECISION POINT - PROCEED OR NOT PROCEED**

Stage III. Candidate Cluster Meetings

Yes

No

A. Implementation Potential

1) Sufficient interest by appropriate mix of minimum of 5-10 players

2) Existing linkages within candidate cluster

3) Ability to identify weak points in value chain and prioritize achievable tasks

4) Shared vision for strengthening candidate cluster and its members

5) Commitment to work together for common goal

6) Willingness to commit resources (time, effort, personnel, financial, etc.) to accomplish action plan tasks

7) Can EDEM effectively support the likely activities resulting from discussions

****DECISION POINT - PROCEED OR NOT PROCEED**

Stage IV. Cluster Formation

EDEM CLUSTER SELECTION CRITERIA

I. DEFINITION

The EDEM project defines clusters in the following manner:

- Clusters include all stakeholders that affect the performance of a given industry: private enterprises (processors, producers, suppliers, buyers, support firms), trade or professional associations, research institutes, training organizations, and financial institutions.
- Strong clusters promote firm competitiveness, improved productivity and greater innovation by:
 - strengthening communication and cooperation between firms
 - identifying constraints and creating action plans to address those obstacles
 - identifying and responding to specific market opportunities
 - improving access to specialized inputs such as market information or a skilled workforce
 - reducing development costs
 - producing measurable results for the benefit of all cluster members

II. DESCRIPTION

Cluster selection has three stages, which include the key criteria (as outlined in the RFP): Competitive Potential, Economic Impact and Implementation Potential. At the end of each stage a Decision Point is reached. USAID participates in each Decision Point, but will also be apprised of findings throughout the process. As the name indicates, the Advisory Group plays a consulting role and provides advice throughout the selection process, but also during the implementation of cluster action plans.

As stated in the Three-Year Work Plan, four “tranches” - each consisting of 3-4 industries or industry segments – will be evaluated during the first three years of the EDEM project. It is estimated that, from these, 6 or more clusters will be formed.

III. CLUSTER SELECTION CRITERIA

Stage 1: Identify Promising Industry Segments

Industries with potential for cluster formation come from a variety of sources. These include:

- A. Listed in the DAI proposal
Industries defined in the DAI (proposal) as having first-priority for evaluation as candidate clusters: Livestock, Dairy, Horticulture, and Herbs & Spices. (Because the arrival of the Herbs & Spices specialist was delayed until mid-January 2004, Tourism was brought forward from the non-agribusiness (SME) sector.)
- B. Additional industries listed in the RFP
Lists of potential clusters, shown in the USAID RFP, based on activities by other USAID projects. (Key is to determine the basis used for cluster formation by each of these programs, as the term “cluster” is often used as a synonym for “industry” rather than the definition being used in the EDEM project.)

C. Market Opportunities

Additional industries identified through EDEM research, including trade data, ACIT reports, discussions with various organizations. Unsolicited candidate cluster applications may also be considered if promising.

EDEM conducts a preliminary screening of each industry or industry segment, and consults with USAID and the Advisory Group for additional insights. If the overall perception indicates that the industry has reasonable potential, or if the information conveyed via unsolicited applications warrants further investigation, then the decision is made to conduct an assessment.

Stage 2: Industry Profile Assessment

The profile (sample attached) outlines the information required to determine if there is: a) sufficient Competitive Potential and b) corresponding Economic Impact to justify cluster formation. While the profile may examine an entire industry, the goal is to identify segments that offer the greatest potential for advancement. Once again, regular input comes from the Advisory Group and USAID. Upon completion of the industry profiles, EDEM conducts a formal assessment using the following criteria.

A. Competitive Potential

- 1) Prospective product or service with value-added potential that can be differentiated or not easily imitated
 - Products/services that are: a) distinct and b) keep more of the profit and work inside Albania.
- 2) Export or Domestic Market Demand
 - Realistic export opportunities
 - overall market demand
 - Potential for replacing imports in the domestic market or for replacing the high volume of raw material imported to produce goods/services for domestic market
- 3) Five-force Analysis
 - Evaluating the strength of competition in the industry (domestic and international), the power of the suppliers, the power of the buyers, the threat of new entries, and the threat of substitutes. Each indicator is rated low, moderate or high, and then combined to provide an overall competitiveness rating for the industry, industry segment or product/service.

B. Economic Impact

- 1) Ability to “pull” own industry forward and a positive “pull effect” on related industries.
 - Although a cluster may be limited in size, the extent to which it can generate improvements affecting all or large parts of the industry.
 - Positive impact of changes in the cluster’s industry on related industries, such as the effect of tourism on agribusiness, transportation, advertising, etc.
- 2) Potential for sustainable job creation and gender impact.

- Ability to create additional jobs, meaning long-term positions that pay over the minimum wage rate
- Participation by women and minorities
- 3) Potential for enhanced branding of Albania
 - Offering products/services that have the potential to improve the perception of Albania and Albanian products in the international and domestic markets.

C. Potential for Collaboration

- 1) Geographic proximity of candidate cluster members
 - Location of likely cluster members is close enough to have easy access to one another in order to foster close cooperation.
- 2) Opportunities for regional cooperation
- 3) Correlation with existing or planned programs by donors, GOA or industry associations.
 - Degree to which a potential cluster could capitalize on or cooperate with these programs in order to address opportunities and constraints more readily.
- 4) Experience of other competitiveness programs with similar cluster focus

Following EDEM's evaluation, findings and recommendations are presented to USAID for review and approval. Once that is given, EDEM proceeds to the next stage.

Stage 3: Candidate Cluster Meetings

From a list assembled by EDEM, a group of potential cluster members receives invitations to attend initial meetings covering the topics of competitiveness, cluster formation, and key opportunities and constraints. During these meetings (which may range from one to several), EDEM evaluates the candidate cluster according to the following criteria.

A. Implementation Potential

- 1) Sufficient interest by an appropriate mix of a minimum of 5-10 players
 - Given that the purpose of a cluster is to bring together not only a core of industry firms but ancillary organizations, institutes and related businesses, the proportion of representation from these groups must be balanced.
- 2) Existing linkages within candidate clusters
 - The number and type of previous relationships that could demonstrate an understanding of the ways cooperation can be beneficial and set the stage for further cooperation.
- 3) Ability to identify weak points in the value chain and recognize market opportunities.
 - Capability of participants to understand these issues and consider solutions. Indications of the level of business knowledge and acumen.
- 4) Shared vision for strengthening the candidate cluster and its members
 - Ability of the participants to recognize tasks that can realistically be accomplished by the cluster. Conversely, to recognize the issues which are beyond reach or too broad a spectrum.
- 5) Commitment to work together for a common goal
 - Interest in striving for constructive action to improve the situation. Recognizing the value of joint efforts on behalf of the cluster rather than as forum simply for airing complaints or promoting a personal agenda.

- 6) Willingness to commit resources (time, effort, personnel, financial, etc) to accomplish action plan tasks
 - Understanding that on-going, firm-level participation is an integral part of being a cluster member. Ready to learn how to tap internal and external sources, rather than relying solely on EDEM's efforts to do so.
- 7) Can EDEM effectively support the likely activities resulting from discussions
 - Priorities of the candidate cluster are tasks that can be achieved, initially in the short-term, but over the medium and long-term as well. Degree to which these fall within the scope and range of EDEM's mandate.

When a sufficient number of meeting are held to clearly evaluate the candidate cluster's potential, the results are assembled by the Cluster Managers, and presented to EDEM and USAID along with a recommendation on whether or not the candidate cluster is ready to proceed to cluster formation. EDEM and USAID make decision.

Stage 4: Cluster Formation

Appendix B

LENDER SURVEY QUESTIONNAIRE

BANK NAME:

LOCATION (headquarters):

Number of BRANCHES (Where):

TELEPHONE / FAX:

CONTACT:

NUMBER OF CREDIT LINES:

TYPES (micro, small, mortgage, agribusiness, etc):

FUND SIZE:

LENGTH OF TIME IN OPERATION:

NUMBER OF LOANS/ AVERAGE SIZE LOAN:

FUNDING SOURCE (donor or own):

CREDIT LINE:

CREDIT LINE 1: (description)

CREDIT LINE 2: (description)

Typical Borrower:

Type of Registration:

Time in Business:

Purpose (working capital, fixed assets, other):

Amount/Range:

Interest Rate:

Commitment Fee/Disbursement Fee:

Loan Term:

Grace Period:

Payment Schedule (Principal & Interest):

Cash/In-Kind Participation:

Collateral Required:

Guarantees Required:

Other Conditions:

Information Required:

a) Application:

b) Business Plan:

(1) Bank's format:

(2) Other acceptable:

c) Financial Statements:

d) Bank statements:

e) Credit references:

f) Courses:

g) Other:

Criteria Used for Evaluation:

1)

2)

3)

4)

Where is Credit decision made?

At Branch?

At Headquarters?

Both?

Steps to Process Application

1)

2)

3)

4)

5)

Processing Time (application to disbursement):

BANK'S PLANS

a) Add LOCATIONS:

Where:

When:

b) Add NEW credit programs:

What type:

When:

Conditions:

APPLICATION FORM SAMPLE:

BANK's BUSINESS PLAN OUTLINE:

Appendix C

EDEM COMMUNICATIONS STRATEGY

(INTERNAL DOCUMENT)